

DIRECT TESTIMONY OF

JAMES A. ATTWOOD, Jr.

DOCKET NO 98- 0866

I. Background and Purpose

1

2 Q. Please state your name and business address.

3 A. My name is James A. Attwood, Jr., and my business address is GTE Service
4 Corporation, 1255 Corporate Drive, Irving, Texas 75038-2518.

5 Q. By whom are you employed?

6 A. GTE Service Corporation.

7 Q. Please describe your job title and responsibilities.

8 A. I was appointed Executive Vice President, Strategic Development and Planning
9 for GTE in July 1998. In that position, I am responsible for conducting
10 competitive analysis, coordinating business unit planning and development
11 activities, and providing leadership on mergers, acquisitions, and strategic
12 transactions for GTE Corporation ("GTE"). I am a member of GTE's Executive
13 Council, which advises the Chairman on strategic issues that have an impact on
14 GTE.

15 Q. Please describe your work experience and education.

1 A. I joined GTE in 1996 as Vice President-Corporate Planning and Development. I
2 was then named Vice-President-International Business Development. In that
3 position, I identified and assessed new business opportunities outside of the
4 United States and Asia, including the pursuit of strategic alliances and new
5 ventures and the completion of transactions.

6 Before joining GTE, I worked in the investment banking divisions of
7 Goldman Sachs & Co. in New York and Tokyo for 10 years. Before that, I was in
8 the actuarial group of Hewitt Associates in Rowayton, Connecticut. I earned my
9 undergraduate degree in mathematics and a master's degree in statistics from
10 Yale University. In addition, I earned a J.D. and M.B.A. from Harvard University.

11 Q. What is the purpose of your testimony?

12 A. The purpose of my testimony is to provide (1) an overview for the other
13 testimony submitted in support of the Joint Application, (2) an overview of the
14 operations of GTE, (3) a summary of the merger of GTE and Bell Atlantic, (4) an
15 explanation of why GTE North Incorporated ("GTE North") and GTE South
16 Incorporated ("GTE South") will continue to be subject to regulation by this
17 Commission, (5) a review of the benefits of the merger, and (6) an explanation of
18 why the merger will not have an adverse effect on competition in Illinois.

II. Overview of Testimony

Q. Please describe the testimony that GTE and Bell Atlantic are submitting in support of the Joint Application.

A. The testimony demonstrates that the merger is consistent with the public interest and the requirements of Illinois law. I will briefly describe each piece of testimony:

The testimony of Sherry F. Bellamy, President, Bell Atlantic – Maryland, Inc., discusses Bell Atlantic's operations and its perspective on the merger. Ms. Bellamy's testimony also shows how the merger will not have a significant adverse effect on competition in Illinois or on GTE North or GTE South service quality.

The testimony of Edward J. Weise, President of the North Region of GTE Network Services, which includes the Illinois operations of GTE North and GTE South, discusses service quality issues, showing that the merger will not diminish the ability of GTE North and GTE South to provide adequate, reliable, efficient, safe and least cost service in Illinois. Mr. Weise also describes in detail how the merged company will remain subject to regulation by this Commission and all applicable laws of Illinois.

The testimony of Paul R. Shuell, Vice President and Controller for GTE, discusses the estimated costs and savings resulting from the merger.

The testimony of Stephen L. Shore, Assistant Controller, Wireline Operations, GTE Service Corporation, shows how the merged company's costs and facilities are fairly and reasonably allocated between utility and non-utility activities, and it also shows that the merger will not result in the unjustified subsidization of non-utility activities by GTE North and GTE South. Mr. Shore also discusses the allocation of the estimated costs and savings to Illinois noncompetitive services.

The testimony of Steven M. Banta, Vice President, Regulatory and Governmental Affairs, Central, for GTE Service Corporation, proposes how the Commission should account for merger savings and costs. Mr. Banta's testimony also explains why the merger will not require this Commission to impose any additional terms, conditions or requirements, and also shows that the merger will not result in any adverse rate impacts on retail customers.

Q. Does this application address and satisfy each element of Section 204?

A. Yes, it does. A matrix of the testimony, detailing which witness addresses which statutory element of Sections 204(b)(1)-(7), 204(c), and 204(f) is attached to the Joint Application as Attachment A.

III. Overview Of GTE

Q. Please describe GTE.

A. GTE, a New York corporation, is a diversified telecommunications corporation with subsidiaries that provide voice and data transport and calling services,

1 network access, directory publishing and public telephone services to customers
2 across the country. GTE is also one of the largest investors in the high-growth
3 global wireless marketplace. GTE's regulated incumbent local telephone
4 subsidiaries operate in 28 states -- Alabama, Alaska, Arizona, Arkansas,
5 California, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan,
6 Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Ohio,
7 Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington,
8 and Wisconsin. GTE's local telephone subsidiaries are subject to public utility
9 regulation in the states in which they operate as well as regulation by the
10 Federal Communications Commission ("FCC") for the interstate services they
11 provide to end users and interexchange carriers. In addition, GTE
12 Communications Corporation is licensed in various states around the country to
13 provide competitive local exchange service and long distance service, and GTE
14 Mobilnet is licensed to operate wireless services. In 1997, GTE had annual
15 operating revenues of \$23 billion. It has a strong balance sheet and an
16 investment-grade credit rating.

17 GTE North and GTE South are regulated by this Commission pursuant to
18 the Public Utilities Act (220 ILCS 5/1-102 et seq.). The Act authorizes the
19 Commission to regulate "noncompetitive telecommunications rates and services"
20 (220 ILCS 5/13-101). GTE North and GTE South are the only GTE subsidiaries
21 in Illinois offering noncompetitive telecommunications services.

IV. Summary Of The Merger

A. Structure And Implementation Of The Parent Company Merger

Q. Please describe the structure of the merger between GTE and Bell Atlantic.

A. The actual mechanics of the merger of GTE and Bell Atlantic are straightforward, and they are described in the Merger Agreement, which is annexed to the Joint Application of GTE Corporation and Bell Atlantic Corporation as Exhibit 7. The Merger Agreement provides for a stock-for-stock exchange. At the effective date of the merger, each outstanding share of GTE common stock will be canceled and converted into the right to receive 1.22 shares of common stock of Bell Atlantic. No fractional share certificates will be issued; any fractional holdings will be converted into cash. In addition, outstanding options to purchase GTE common stock will be canceled and converted into options to purchase, for each share of GTE common stock for which an option was held, 1.22 shares of Bell Atlantic common stock. No bonds, notes or other forms of indebtedness will be issued to finance the merger. The merger is intended to qualify as a tax-free reorganization under Section 368 of the Internal Revenue Code, except for cash received in lieu of fractional shares. Bell Atlantic has created a wholly owned subsidiary, Beta Gamma Corporation, that will merge into and with GTE. GTE will survive the merger as a wholly owned subsidiary of Bell Atlantic.

Q. Were GTE and Bell Atlantic advised by financial advisors as to the fairness of the exchange ratio?

1 A. Yes. GTE and Bell Atlantic were each advised by financial advisors that the
2 exchange ratio is fair and reasonable to their respective shareholders from a
3 financial point of view.

4 Q. Will GTE continue to be a subsidiary of Bell Atlantic after the merger?

5 A. Yes. Although GTE will technically be a subsidiary of Bell Atlantic, the merger is
6 a "merger of equals."

7 Q. Why is the merger considered a merger of equals?

8 A. This is a merger of equals because the management and corporate governance
9 responsibilities will be evenly divided between the corporations. After the
10 merger is completed, the Board of Directors of the merged company will consist
11 of an equal number of Board members from Bell Atlantic and GTE. The
12 directors of the merged company shall be selected by Bell Atlantic and GTE,
13 respectively, to the extent possible from current directors of each corporation.

14 After the merger, Charles R. Lee, Chairman and Chief Executive Officer
15 of GTE, will become Chairman and Co-Chief Executive Officer of the merged
16 company. Ivan G. Seidenberg, current Vice-Chairman, President and Chief
17 Executive Officer of Bell Atlantic, will assume the position of Co-Chief Executive
18 Officer and President of the merged company. On July 1, 2002, Mr. Seidenberg
19 will become the sole Chief Executive Officer and will continue as President of
20 the merged company, with Mr. Lee continuing as Chairman of the Board of
21 Directors of the merged company. On July 1, 2004, Mr. Seidenberg will assume

1 the position of Chairman.

2 Q. How will GTE be operated until the merger is completed?

3 A. Until the merger is completed, both corporations will continue to operate as
4 independent entities. GTE will continue to pursue its own business goals, and it
5 will be business as usual for GTE's operations. The merger will not occur until
6 all necessary governmental and regulatory approvals have been obtained. This
7 process includes a review by the Department of Justice and other federal and
8 state commissions.

9 **B. Merged Company Characteristics And Merger Financing**

10 Q. Please explain the process for integrating GTE and Bell Atlantic.

11 A. It has been agreed that a transition planning process will determine how the two
12 corporations should be fully integrated. Mr. Lee and Mr. Seidenberg will
13 coordinate all aspects of the transition planning and integration. Messrs. Lee
14 and Seidenberg have established eight Merger Integration Teams ("MITs")
15 formed around the following substantive areas: (1) consumer and small
16 business; (2) large business, wholesale business, competitive local exchange
17 carrier ("CLEC"), data/internetworking, technology and information management;
18 (3) telecom network and operations; (4) wireless; (5) international and
19 directories; (6) legal, regulatory and government affairs; (7) human resources;
20 and (8) finance and headquarters support. The MITs are led by senior
21 management personnel from both companies. I have been given the

1 responsibility of overseeing the merger integration planning process and will
2 report to Messrs. Lee and Seidenberg, who will coordinate all aspects of
3 transition planning and integration.

4 Q. Do you believe that the management teams from Bell Atlantic and GTE will be
5 able to integrate the companies' operations smoothly?

6 A. Yes. The management teams of the two companies have complementary
7 strengths that will facilitate the accomplishment of the merger in an efficient and
8 cooperative manner and will enhance the ability of the merged company to
9 succeed in the new competitive environment. Moreover, both GTE and Bell
10 Atlantic have experience in mergers of parent companies. GTE merged with
11 Contel Corporation in 1991, and Bell Atlantic merged with NYNEX in 1997.

12 Q. Please describe some of the financial and operating characteristics of the
13 merged company.

14 A. Based on data as of December 31, 1997, the financial and operating
15 characteristics of the merged company are as follows:

Total Assets	\$96 billion
Annual Operating Revenues	\$53 billion
Annual Net Income	\$6.9 billion
Total Employees	255,000
Domestic Access Lines	63.2 million

Domestic Wireless Customers 10.6 million

C. Impact on GTE North and GTE South

Q. Will the State of incorporation of either GTE North or GTE South be changed at the time of the merger?

A. No. GTE North will remain a Wisconsin corporation, and GTE South will remain a Virginia corporation.

Q. How will the merger influence the operations of GTE North and GTE South in Illinois?

A. The organization of the new company should have no significant direct influence on GTE's operations in Illinois, although the reorganization is expected to result in a better, more customer-focused and efficient company. Moreover, nothing in the proposed merger changes the ongoing obligations of GTE North and GTE South to provide quality service in Illinois at just and reasonable rates. The transactions necessary to complete the merger will not change the relationship of GTE's regulated subsidiaries with the Commission: they will become second tier subsidiaries of Bell Atlantic. No operations, lines, plants, franchises or permits of GTE North or GTE South in Illinois will merge with the lines, plants, franchises or permits of any Bell Atlantic subsidiary. The merger will not require any change in the rates, terms, or conditions for the provision of any telecommunications services provided in Illinois. When and if the merged company seeks to make any such changes, GTE North and GTE South will file

1 all necessary applications with the Commission to ensure compliance with all
2 statutory obligations in Illinois.

3 Q. How will the merger affect employment at GTE?

4 A. The merger is not expected to have a material impact on employment levels for
5 GTE hourly workers, and all existing union contracts will be honored. It is
6 expected that some management positions will be eliminated from both GTE and
7 Bell Atlantic, primarily from the areas of corporate headquarters administration
8 and management. Any consolidation of management positions that does occur
9 is expected to be accomplished, to the extent possible, by attrition, retirements,
10 and other voluntary measures.

11 Q. Are you familiar with 220 ILCS 5/7-204(b)(4)?

12 A. Yes. It requires the Commission to find that "the proposed reorganization will
13 not significantly impair the utility's ability to raise necessary capital on
14 reasonable terms or to maintain a reasonable capital structure."

15 Q. Will the merger impair the ability of GTE North or GTE South to raise necessary
16 capital on reasonable terms or to maintain a reasonable capital structure?

17 A. No. The merger will not impair either company from raising necessary capital at
18 all, let alone "significantly." As I mentioned above, the merger is a merger of
19 equals, involving a tax-free exchange of stock at the parent company level. The
20 merger has no adverse impact on the ability of either GTE North or GTE South
21 to either raise capital on reasonable terms or to maintain a reasonable capital

1 structure. In fact, the merged company will have considerable financial strength
2 and an increased ability to raise capital and maintain a capital structure
3 adequate to meet its operational needs. Bell Atlantic and GTE currently have
4 strong debt ratings and investment-grade credit. With merged total assets of
5 \$96 billion and operating revenues of \$53 billion, the merged company's debt
6 rating is expected to be as good as or even better than either company's debt
7 rating. GTE and Bell Atlantic will not need to issue bonds or otherwise assume
8 any new indebtedness to finance the merger.

9 Q. Does the merger require the sale of any assets of either GTE North or GTE
10 South in Illinois?

11 A. No. Because the merger is an exchange of stock at the parent company level, it
12 does not require the sale, assignment, or transfer of any property of GTE North
13 or GTE South.¹

14 **V. Benefits Of The Merger**

15 Q. What are the benefits of the merger to Illinois consumers?

16 A. The merger will provide several benefits to Illinois consumers:

17 First, the merger promotes competition in local exchange services, long
18 distance services, and data and Internet services. Increased competition will
19 result in benefits to Illinois consumers of these services, in the form of innovative

¹ As Mr. Weise notes in his testimony, GTE recently announced that some of its local exchanges in Western Illinois have been offered for sale to qualified buyers.

1 products, quality service, and competitive prices. Furthermore, the merger will
2 create a company with the ability to offer a full range of services on a national scale,
3 a characteristic that will improve the merged company's ability to acquire and retain
4 customers who are looking for integrated packages of services.

5 Second, a portion of the cost savings generated by the merger will benefit
6 Illinois ratepayers in at least two ways. With respect to cost-savings that are
7 associated with fully competitive products and services, competition will ensure that
8 these savings are passed on to Illinois ratepayers. In addition, the merger is
9 expected to result in cost-savings at the parent company level due to the adoption of
10 best management and operational practices of the two companies, increased
11 economies of scale, and elimination of duplicate administrative functions. As
12 described further in the testimony of Mr. Banta, realized cost savings allocable to
13 GTE's regulated, noncompetitive Illinois services will be accounted for when the
14 Commission takes account of merger-related savings in future proceedings.

15 Third, the merger is expected to allow GTE and Bell Atlantic to share their
16 respective expertise and best practices, which will position the company to
17 provide improved overall service and customer satisfaction. In addition, the
18 financial strength and enhanced competitiveness of the merged company will
19 assist GTE North and GTE South in maintaining their historic commitment to

1 universal service in Illinois.

2 Q. You mentioned that the merger will promote competition in several sectors.
3 Please explain this in more detail.

4 A. The following briefly summarizes the anticipated benefits of the merger to
5 competition:

6 1. Local Telephone Service. The merger is anticipated to increase
7 competition in local telephone service in Illinois (as well as elsewhere in the
8 country). Bell Atlantic's in-region customer relationships with the hundreds of
9 Fortune 1000 companies headquartered in the Boston-New-York-Washington,
10 D.C. corridor that have local offices around the country, including in the
11 franchise areas of Ameritech and other incumbent local exchange carriers
12 ("ILECs"), constitute a significant asset that can be used by the merged
13 company's CLEC to gain entry into the areas served by Ameritech and other
14 carriers. GTE's operational platform and presence in service territories around
15 the country and in Illinois serve as a base from which to expand the merged
16 company's facilities. The combined marketing efforts and opportunities
17 associated with existing customer relationships of GTE and Bell Atlantic will
18 generate more traffic in these out-of-franchise areas, including Illinois.

19 2. Long Distance and Data Services. The merger will help accelerate
20 GTE's plans to develop its nationwide long distance and data network, the
21 Global Network Infrastructure ("GNI"), because Bell Atlantic's customer base is

1 expected to generate more long distance and Internet traffic than GTE can be
2 expected to develop on its own. The potential increased traffic will make it more
3 economical for the merged company to extend the GNI faster and over a wider
4 area. This development will create another facilities-based long distance carrier
5 to rival the only three companies who have long distance networks that are truly
6 national in reach: AT&T, MCI WorldCom, and Sprint. Likewise, the accelerated
7 development of the GNI will position the merged company as a strong competitor
8 to MCI WorldCom and increase the number of valuable Web sites and potential
9 customers connected to the merged company's Internet backbone network.

10 3. Packaged Services. Over the last two years of consolidation within
11 the industry, strong national competitors have emerged that stand ready to offer
12 a full package of wireline, wireless, long distance and data services to customers
13 in all areas of the country: MCI/WorldCom/MFS/UUnet; AT&T/TCG/TCI;
14 SBC/Pacific Telesis/Ameritech/SNET; and Sprint/Sprint Spectrum. The merger
15 will create a fifth national competitor that can offer consumers a full package of
16 telecommunications service on a nationwide basis.

17 Q. Are there other long-term benefits to customers, GTE and Bell Atlantic from the
18 merger?

19 A. Yes. In general, the merged company will be better situated than either
20 company would be individually to provide quality telecommunications services
21 efficiently and at competitive prices. As discussed above, the merged company

1 will have greater financial resources and flexibility, technological and
2 management expertise, and an expanded national presence that will make the
3 merged company more competitive than the two companies would have been on
4 their own. These general benefits will be reflected at the parent company level
5 and, in the long-term, throughout the merged company's operating subsidiaries.
6 For example, the merged company will have better access to capital because of the
7 combined financial strength of GTE and Bell Atlantic, and the increased economies
8 of scale in purchasing will lower procurement costs and make facility deployment
9 and network investments more economical. The merged company will also likely
10 produce more innovative products and services at a lower cost because they can
11 combine their research and development efforts.

12 **VI. No Anti-Competitive Effect**

13 Q. Are you familiar with 220 ILCS 5/7-204(b)(6)?

14 A. Yes. That section of the Act requires the Commission to find that "the proposed
15 reorganization is not likely to have a significant adverse effect on competition in
16 those markets over which the Commission has jurisdiction."

17 Q. Will the merger have an adverse effect on competition in the Illinois local exchange
18 market?

19 A. No. There will be no adverse effect on competition at all, let alone a "significant"
20 adverse effect. Bell Atlantic's local exchange wireline telephone subsidiaries serve
21 territories in the Northeast and Mid-Atlantic and have no local exchange operations

1 in Illinois. Thus, Bell Atlantic does not offer any local telephone services in Illinois,
2 and the merger will not result in the elimination of an actual competitor in the local
3 exchange market.

4 Q. Will the merger eliminate a significant potential competitor in the Illinois local
5 exchange market?

6 A. No. As Ms. Bellamy notes in her testimony, Bell Atlantic had no plans to enter the
7 local exchange market in Illinois, nor was it even authorized to provide local
8 exchange service anywhere in Illinois. Moreover, Bell Atlantic does not have
9 widespread customer relationships or existing on-site facilities in GTE's regions. As
10 a result, mass-market entry by Bell Atlantic into GTE's service areas has been
11 unattractive.

12 Q. Will the merger further concentrate GTE's position in the market for local exchange
13 services in Illinois?

14 A. No. Although GTE North and GTE South are the ILECs in their current service
15 territories, the majority of the local exchange customers in Illinois are served by
16 Ameritech. GTE North and GTE South are not a significant actual competitor in
17 Ameritech's service territory. As such, statewide GTE North and GTE South are not
18 dominant local exchange carriers. Moreover, the merger will have no effect on
19 GTE's current efforts to open its own markets to local competition, consistent with
20 the requirements of the Telecommunications Act of 1996 and this Commission's
21 implementation of it.

1 Q. What effect will the proposed merger have on the Commission's efforts to promote
2 competition in Illinois?

3 A. The Commission has taken a leadership role in the dramatic transformation of the
4 telecommunications landscape in Illinois from a regulated environment into one that
5 is market-based. The Commission has taken steps to advance the competitive
6 marketplace, and much progress has been made in the recent past. If anything, the
7 proposed merger will enhance the Commission's efforts to bring competition to
8 Illinois.

9 Q. Does this complete your testimony?

10 A. Yes, it does.